

NO: **F043**

COUNCIL DATE: **OCTOBER 20, 2014**

FINANCE COMMITTEE

TO: **Mayor & Council**

DATE: **October 10, 2014**

FROM: **City Manager
General Manager, Finance & Technology**

FILE: **1680-01**

SUBJECT: **Internal Audit Status Update**

RECOMMENDATION

The City Manager and the Finance & Technology Department recommend that Council receive this report as information.

INTENT

As requested by the Chair of the Audit Committee, this report provides Council with an update on the City's Internal Audit Division (IAD).

BACKGROUND

The IAD was established in May 2010 based on recommendations made by the City's external auditors-KPMG. The IAD is led by the Corporate Audit Manager and two internal audit staff, including a commodity tax specialist. The IAD reports jointly to the City Manager and the General Manager of Finance and Technology and also provides updates to the Audit Committee semi-annually and more often as deemed appropriate.

Whereas the primary objective of the City's external auditors, KPMG is to conduct the annual audit in order to express opinions as to whether the consolidated financial statements fairly present the financial position of the City for a particular year, the IAD focuses on conducting independent reviews on various internal functions performed by the City and in order to determine if adequate controls and processes are implemented to ensure that City assets are appropriately safeguarded.

The primary responsibilities of the IAD include the following:

1. To undertake a review of programs across all City Departments and external organizations for which the City has a material financial role, with a view to ensuring that internal controls and related processes are adequately in place to safeguard City assets and interests.
2. To respond on an "as needed" basis to circumstances and incidents that may occur from time to time and which require audit investigation or review, including providing recommendations to change processes and controls as deemed necessary.

3. To provide input and advice with respect to the development of new City policies, procedures, and systems for any departments with a view to ensuring appropriate levels of controls are in place to safeguard City assets and interests.
4. To provide clarification and advice for staff throughout the organization related to the Code of Conduct By-law and related City policies.
5. To provided overall corporate governance in relation to commodity tax.

The complete Terms of Reference for the IAD are attached to this report as Appendix I.

Since establishment, the IAD has conducted numerous reviews of critical City functions and has made many recommendations that have been implemented all with the view to improving the control environment in the respective function and exploring opportunities to find new efficiencies in process. Some of these reviews can be quite detailed and cross departmental, for example IAD reviewed AMANDA, the primary computer system used for recording financial transactions related to land development and building projects. This review required significant assistance from the IT department and directly involved the Planning and Development and Engineering Department as both departments utilize AMANDA. The recommendations may also include changes to computer systems that are used in relation to the respective process. Also as part of the IAD review, relevant corporate policies and procedures are also examined and if deemed appropriate, suggested changes are proposed. Due to the sensitivity surrounding these reviews, strict confidentiality is applied; however summaries of all findings and recommendations are presented to the Audit Committee to ensure full accountability. Summaries of all findings and recommendations are presented to the Audit Committee.

Apart from scheduled internal reviews, the IAD also responds to circumstances that present themselves from time to time related to the Code of Conduct By-law. In these cases, IAD conducts impartial reviews and provides recommendations for next steps to appropriate staff. The IAD will liaison with other City services such as Legal Services or Human Resources as deemed necessary to handle incidents that are sensitive in nature.

The IAD also provides corporate governance in relation to commodity tax services, including monthly filing of the Goods and Services Tax (GST) and the Provincial Sales Tax (PST). IAD staff respond to all internal questions regarding GST/PST and liaison with Federal and Provincial tax agencies as required.

CONCLUSION

This report provides a high level summary of the function and role of the City's Internal Audit Division within the City's organizational structure.

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City Manager

Vivienne Wilke, CGA
General Manager,
Finance & Technology

**INTERNAL AUDIT DIVISION
TERMS OF REFERENCE**

1. RESPONSIBILITIES AND OBJECTIVES

- 1.1 The Internal Audit Division (IAD) will undertake a regular program of assurance across all City departments with a view to providing an independent and objective opinion on the financial processes and the control environment (comprising governance, risk management, and internal control) by evaluating their effectiveness in achieving the City's objectives;
- 1.2 The IAD will undertake evaluations of external organizations for which the City has a significant financial role such as the Surrey City Development Corporation and the Surrey Housing and Homelessness Society with a view to ensuring that the financial processes and the control environment of these organizations are properly structured to achieve the City's objectives;
- 1.3 The IAD will respond on an "as needed" basis to circumstances and incidents that may occur from time to time and which require internal audit evaluation or investigation and in such circumstances may result in a report, which may include recommended actions and adjustments to financial processes and the control environment to achieve the City's objectives;
- 1.4 The objective of every audit undertaken by the IAD will be to add value by evaluating the control environment with a view to improving the effectiveness of financial and operating activities in support of the City's broader objectives;
- 1.5 The objective of every report prepared by the IAD will be to summarize the results of the work that has been undertaken and to provide an evaluation of the risks and controls of the area under review and to provide recommendations as modifications that should be considered where necessary;
- 1.6 The work of the IAD is not intended to diminish the responsibility of the City's management to establish a control environment including systems of internal control, risk management, and governance to ensure the City's objectives are met.
- 1.7 The IAD will provide input and advice with respect to the development of new City policies and procedures and the design of new City facilities particularly with respect to the control environment with a view to ensuring the City's objectives are achieved; and
- 1.8 The IAD will provide advice and clarification to City staff on the Code of Conduct By-law and the Whistle Blower Policy.

2. INDEPENDENCE AND ACCOUNTABILITY

- 2.1 The IAD is to remain independent of the City's other services to ensure that the audit staff make impartial professional judgements in relation to the audit work with which they are involved;
- 2.2 The IAD has full and unrestricted direct access to the City's records, assets, and employees in relation to any area under review and which it considers necessary to fulfill its responsibilities and achieve its objectives for the purpose of reporting independently and impartially and making sound recommendations. Where information is highly confidential, access to such information will be restricted to the Manager of the IAD;
- 2.3 Each IAD auditor is required to proactively declare any potential conflict of interest prior to the commencement of each audit engagement;
- 2.4 Accountability for responding to IAD advice and recommendations rests with the City's senior management team.
- 2.5 An annual report from the IAD will be provided to the Audit Committee of City Council with such a report providing an overview of the outcomes of the IAD work in the previous year and the work plan for the IAD for the current year. Other IAD reports may be provided to the Audit Committee from time to time on specific matters that are under review by the IAD.

3. INTERNAL AUDIT RESOURCES

- 3.1 The IAD has resources as determined by the City's Financial Plan;
- 3.2 The Internal Audit Manager is responsible for ensuring that Internal Audit Division resources are used efficiently to meet the responsibilities of and achieve the objectives of the Division; and
- 3.3 The Internal Audit Manager is responsible for reviewing Internal Audit Division resources annually as part of the development of the annual Work Plan for the IAD and to make recommendations in this regard to the City Manager.
- 3.4 The Internal Audit Manager is responsible to ensure the appropriate technical skills are engaged to perform the duties of the IAD and to develop the staff of the IAD from a technical perspective to be able to effectively perform the necessary work.

4. SCOPE

- 4.1 The scope of an internal audit is not limited to financial processes and may include examination and evaluation of:
- Existence, relevance, and effectiveness of, and compliance with City by-laws, policies, procedures, and plans as well as with external laws and regulations;
 - Operating effectiveness, efficiency, quality and the responsible use of City resources and assets; and
 - Adequacy of ability to monitor, assess, report and respond to risks.
- 4.2 The scope of the Internal Audit Division includes:
- a) The City of Surrey, inclusive of all its departments;
 - b) External organizations that are directly or indirectly controlled by the City and organizations for which the City may have a material financial relationship; and
 - c) Revenue and expense contracts that the City has in place with external vendors.

5. COMPOSITION AND REPORTING STRUCTURE

- 5.1 The Internal Audit Division is comprised of the Internal Audit Manager, internal auditors and sector specialists as funded by the annual Council-approved City Financial Plan.
- 5.2 Subject to approval by the City Manager or his/her designate, the IAD may contract third party resources to provide additional resources and/or specialized expertise when needed.
- 5.3 The Internal Audit Manager reports to the Deputy City Manager. The Internal Audit Manager may request a meeting of the Audit Committee where the Manager determines that such a meeting is necessary or appropriate.

6. FRAUD AND CORRUPTION

- 6.1 The Internal Audit Division is not specifically responsible for the prevention or detection of fraud and corruption, but is expected to report any instances that they discover in their work. Audit procedures alone cannot guarantee that fraud or corruption will be detected.
- 6.2 Internal auditors will be alert to risks and exposures that could allow fraud or corruption and to any indications that fraud and corruption may have occurred. They will be responsible for reporting any such items.

- 6.3 The Internal Audit Manager is to be informed of all suspected or confirmed fraud, corruption, or impropriety with a view to formulating an opinion on the adequacy and effectiveness of the relevant internal controls and the overall internal control environment.
- 6.4 The Internal Audit Manager is to be informed of all suspected or confirmed fraud, corruption, or impropriety with a view to ensuring that investigations of such matters are carried out in an appropriate manner.

7. CORPORATE AUDIT PLAN

- 7.1 The Corporate Audit Work Plan will include provision for the following:
 - Regular Work Assignment with a view to completing all corporate areas in scope over a three year period;
 - Special Projects executed without notice; and
 - Special Work Assignments that occur extemporaneously as a result of new information or allegations that are received during the course of a year.
- 7.2 The Corporate Audit Work Plan establishes the audit work scheduled for the Internal Audit Division for the fiscal year. The Work Plan is reviewed and approved by the Deputy City Manager with the advice of the General Manager, Finance and Technology and will be forwarded to the Audit Committee of Council as information.
- 7.3 The development of the annual Corporate Audit Work Plan will utilize a risk-based approach that incorporates various factors in determining the scheduled audit work for each fiscal year. These factors include:
 1. Available resources - the number of staff hours available for audit work taking into consideration time for professional development and training.
 2. Management concerns - specific concerns that management has brought to the attention of the Internal Audit Division.
 3. Audit history - incorporates the level of audit work conducted in a specific area and corresponding audit issues noted.
 4. Materiality - incorporates the related relative risk of a potential audit target, including financial and non-financial factors.
 5. Control environment - an assessment of the relevant strength of existing internal controls or the control environment in a given area.
 6. Risk assessment prioritization - the work of the IAD will be prioritized based on an enterprise risk assessment related to the City and to its Departments.

8. COMMUNICATION WITH THE AUDIT COMMITTEE

- 8.1 The Internal Audit Manager will attend Audit Committee meetings for the purpose of presenting the Annual Work Plan as well as the IAD Annual Report.

The Internal Audit Manager will also attend meetings of the Audit Committee as required to report on matters related to the control environment of the City that are considered material.